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TAGS: [ECON](#) [PREL](#) [PGOV](#) [FR](#)  
SUBJECT: U.S. ECONOMIC STAKES IN FRANCE'S PRESIDENTIAL  
ELECTIONS: LESS THAN MEETS THE EYE?

Classified by DCM Thomas J. White for reasons 1.4 (b) and (d)

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¶1. (C) Summary: Going into the second round of France's presidential elections the stakes are modest for near to medium-term U.S. economic interests. We see little difference between the candidates on key foreign economic policy issues: a Doha deal would happen in spite of, not thanks to, France regardless of who wins; both candidates are sympathetic to injecting the environment into trade issues (including via a carbon tax on imports from non-Kyoto signatories); both candidates have been vocal about France, and Europe, defending its economic interests, including through the promotion of national or EU champions; both have talked about the need for political oversight of the ECB. The domestic economy is the main battleground, and here if a victorious Nicolas Sarkozy follows through on his core program it could open the way, over the longer term, to more dynamic growth and a more confident French partner. End summary.

¶2. (C) The time devoted to international economic issues in the two hour plus May 2 debate between Nicolas Sarkozy and Segolene Royal - a single statement from Sarkozy about naivety in the WTO and allusion to a carbon tax - speaks to a general consensus (and low level of campaign interest) in France's policy establishment over the main economic issues on the U.S./Europe and U.S./France agenda. Neither candidate would enthuse over a Doha deal, though we doubt whether either would veto a deal under sufficient pressure. On the campaign trail Sarkozy has been passionate about defending national -- or European -- corporate champions and pushing for "European preferences" in EU decision-making. Segolene Royal would undoubtedly follow a similar line.

¶3. (C) The candidates also appear to pursue reasonably proximate policies on issues ranging from the environment, to development, to the global fight against IPR violations. In the May 2 debate it was Nicolas Sarkozy who advocated continuation of GOF policy in favor of a carbon tax on imports from non-Kyoto signatories. His advisors tell us he would also support the creation of a (still fuzzy) United Nations Environmental Organization to operate in parallel with the WTO. On development issues Sarkozy advisors say their candidate may be less focused on achieving the 0.7% of GDP expenditure target advocated by President Chirac. But both Royal and Sarkozy appear to support refocusing French development assistance efforts on source countries of French immigration. At various times the candidates have expressed support for international efforts to fight IPR violations, though it is not clear how hard a government of either left or right would continue to push for current Finance Minister Thierry Breton's "IPR FATF" anti-counterfeiting brainchild.

Industrial Policy

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¶4. (C) There are nuanced - not broad philosophical - differences between Sarkozy and Royal on the industrial policy issues facing France with at least tertiary implications for U.S. interests. Neither is likely to champion the kind of energy sector liberalization that ultimately would be in Europe's long-term security interest. French industrial policy specialist Elie Cohen told us on May 2 that the Socialists' stated support for a Gaz de France (GDF)/Electricite de France (EDF) merger (in place of the mooted GDF/Suez deal) has morphed into support for creation of a vaguely-defined common transmission/distribution structure. Royal has dropped initial thoughts of having the state buy back shares in EDF, while Sarkozy has indicated he might support the sale of up to 30% of the company (the maximum allowed by law). While Segolene Royal has said she would revisit the further privatization of GDF (required for an ultimate merger with Suez), Suez CEO Gerard Mestrallet has told the French press that he remains hopeful of convincing Royal of the merits of the GDF/Suez tie-up. For his part Sarkozy supports the deal.

¶5. (C) Segolene Royal has been harshly critical of restructuring plans of both Airbus and Alcatel/Lucent, saying that she would call for suspension of the former's Power 8 restructuring plan if elected. Sarkozy says he too does not feel "bound" by the plan, and has indicated receptivity to boosting state participation in the company. We agree with observers who say that both candidates are committed to the "Frenchness" of Airbus. The economist Cohen believes the main nuance between the candidates is that Segolene Royal would support participation of French regions in the company, while Sarkozy would support a role for the central government. EADS stakeholder Arnaud Lagardere, who would like eventually to sell his stake, told the Ambassador this week that he fears a Sarkozy rescue plan for Airbus that would increase the role of the state, and make it more difficult for Lagardere to walk away and

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focus on his core media/publishing activities. Both Sarkozy and Royal say they support an increase in state R&D for the telecommunications and aeronautic sectors.

Bio-Tech, Nuclear Power, the Digital Environment

¶6. (C) On a number of domestic policy issues of interest to the United States - bio-technology, nuclear power, the digital environment -- a Sarkozy presidency would be more friendly to U.S. interests. Segolene Royal has expressed strong opposition to agricultural bio-technology (refitel), most recently cozying up to the far left by commissioning a report from anti-globalization activist Jose Bove on agricultural sovereignty. Sarkozy is open to the technology, though he remains skeptical of its benefits. Sarkozy's support for continued development of nuclear power technologies, including construction of the European Pressurized Reactor, would make for a more conducive environment for continued robust U.S. - French cooperation in the nuclear sector. Royal has said that she would open the question of the EPR's deployment in France to debate.

¶7. (C) Finally, Segolene Royal's flirtation with the open source community contrasts with Sarkozy's expressed concern for ensuring the defense of intellectual property in the digital environment, and fair competition between open source and proprietary software. A UMP government likely would be a more sympathetic partner for working through issues -- such as the interoperability question associated with last year's digital copyright law - that have an important impact on innovation in the digital environment.

Domestic Policy

¶8. (SBU) The larger stakes in this election are over domestic policy choices that will determine France's long-term economic health. Those who ascribe reformist tendencies to Segolene

Royal - among them a handful of reasonably serious economists (mainly associated with the recently-established Paris School of Economics) - say her go-slow inclusive vision of how to reform (lots of discussion among the "social partners," adapting "flexicurity" and other aspects of the much in-vogue Scandinavian model to France, etc.) is the only way France can change. And they point to proposed supply-side measures in support of innovation and R&D spending as evidence of a commitment to a creative, pro-entrepreneur economy.

¶9. (C) But larded up as it is with government employment schemes, pension increases and defense of the functionary, it is difficult to see how Segolene Royal's "presidential pact" would bring about the kind of change that could create a more dynamic French economy. Although some around her say she is no fan of the 35 hour work-week (her performance in the May 2 debate gives little credence to that supposition), her proposed convocation of the social partners to discuss the issue would likely result in tinkering, not real reform. Unlike Sarkozy, Royal would likely leave design and implementation of economic policy details to her Prime Minister. Cynics say that the best that could be hoped is that her program busts the already fragile French public finances and ultimately forces a Mitterrand-like about-face.

¶10. (C) Those around Nicolas Sarkozy say their candidate will focus on four key economic issues: increasing flexibility in the labor market by unifying France's bifurcated labor contract system; cutting the weight of the state by shedding bureaucrats (through attrition) and reducing the number of ministries to 15; reducing payroll taxes; and reforming France's university system by granting schools more autonomy. Advisors say that Sarkozy would keep a firm grip on the economic policy tiller, with current campaign director Claude Gueant overseeing follow-through from the Elysee. Sarkozy has also proposed keeping a close watch over public expenditures by cutting the Finance Ministry in two: a Minister of the Budget would focus on keeping the books balanced, while a Minister of Economy would focus on economic and industrial policy issues.

¶11. (C) While there is much speculation about how much push-back from the street Sarkozy would truly tolerate, some who have dealt with him in the past believe he is far too politically habile for a frontal assault on ill-prepared terrain. They point in particular to the way in which, as Finance Minister, he used non-partisan reports and commissions to help push through changes in the legal status of GDF and EDF, opening the way to the partial privatization of those companies. Similarly, he used a non-partisan report on the lack of competition between France's leading retail stores, then horse-traded with the industry, to force changes in that sector.

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¶12. (C) Comment: For U.S. economic interests this election is far from black and white. Each candidate harbors statist instincts that would quickly emerge if perceived French national interests were at stake. Even in the main battleground of domestic policy we have run into plenty of businessmen - including the Secretary General of France's employers association - who harbor distrust for Nicolas Sarkozy, and question his commitment to "market liberalism." We would do well not to exaggerate expectations. Nevertheless, given his expressed support for reform of key aspects of the French economy, a Sarkozy presidency holds out prospects for a more dynamic, self-confident France in the long term.

STAPLETON